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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C.

In the Matter of)

Federal-State joint Board on)
Universal Service)
)

CC Docket No. 96-45

FCC MAIL ROOM

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INITIAL COMMENTS
OF THE IOWA UTILITIES BOARD

RECEIVED

The Iowa Utilities Board (IUB) offers the following comments on the proposed rules.

SUMMARY

1. The IUB supports the FCC's decision to appoint the National Exchange Carrier Association (NECA) as the interim administrator.
2. Proxy models should not be used for rural carriers until the models are proven to accurately reflect the costs of small rural carriers.
3. Interstate revenues should be used as the basis for funding the federal universal service fund.
4. Rules should be developed to encourage the provision of advanced services in rural areas.

ADMINISTRATION OF THE FEDERAL UNIVERSAL SERVICE FUND

Universal Service Fund (USF) administration on the national level should be performed by a non-governmental organization in an efficient, fair, and competitively neutral manner

NECA has successfully administered the existing high cost fund since its inception. During the last twelve years, NECA has demonstrated its capability for dealing with large scale databases and has proven its abilities in the collection and distribution of funds. The

IUB commends the Joint Board and supports the recommendation for the appointment of the National Exchange Carrier Association (NECA) as the temporary administrator of the high cost fund. As the industry evolves into the new legislation, it is wise to capitalize on the expertise and proven track record of an existing organization during this short transition process.

The membership for NECA is currently limited to only local exchange carriers and its board of directors are primarily from its membership. The current membership and governance of the organization do not give the appearance of being representative of all telecommunications providers. During this transition period NECA should be allowed the opportunity to structure its governance and membership into the position of a neutral, third-party for the purpose of competing in a bidding process for the permanent administration of the high cost fund.

NECA's current USF administration costs, approximately one million dollars per month, are assigned to the current fund using ratios developed through relationships of total funds or revenues managed to the individual categories of various funds or revenues. Developed ratios are applied to total operating costs to determine an applicable assessment to the fund. These administrative fees may not be representative of actual costs. Should payment amounts be frozen at the 1997 proposed levels, no future data collections or validations would be required and the administration process basically becomes a revenue collection and fund distribution process. Immediate evaluation of fund administration

costs will help to transition to lower cost administration and help to establish parameters for the competitive bidding process.

RURAL CARRIERS

Iowa is a rural state with a significant number of rural carriers. Many of these rural carriers rely on universal service funds to assist in keeping rural local rates affordable. The IUB is concerned that a proxy model may not have the technical ability to accurately predict the cost for small rural telephone companies. Many commentators stated that the costs produced by the models do not accurately reflect the small rural companies' cost to provide service.¹ The IUB shares the concerns of the commentators regarding the accuracy of the investment and engineering assumptions in the models. Any model applicable to small rural telephone companies must be able to differentiate between cost of investments for a small company and a large company. It does not seem reasonable to assume that a small rural company would have the purchasing power of a large company and be able to purchase equipment, such as switches, at the same discounted price.

The IUB is concerned that the models are not sophisticated enough to produce the accuracy needed to accurately identify the cost for small rural companies. For example, the proxy models do not appear to consistently assign the lines to the company that serves the customer. For a small company, such as Miller Telephone Company in Iowa that has approximately 100 customers, even a small miscalculation of the number of lines served by the company could result in substantial over or under calculation of costs and the related

¹ Rural Telephone Coalition reply comments at 8, John Staurulakis, Inc. comments at 10.

universal service subsidy. Iowa has 88 telephone companies with fewer than 1,000 lines. For a large telephone company that has many exchanges, the model may on average produce costs that accurately reflect the cost to provide basic local service. However, a small company with only one or two exchanges can be severely impacted by inaccuracies that may be considered minor for large companies.

The Joint Board has recommended that rural telephone companies begin the transition to a proxy model in the year 2001. The recommendation states "The Joint Board recommends that rural carriers should begin shifting to a proxy-based system three years after the implementation of a proxy-based methodology for non-rural LECs and the Commission working with the state commissions, has reviewed the appropriateness of using a proxy model for rural carriers."

The IUB commends the FCC for proposing a review prior to transitioning rural carriers to a proxy model. The IUB believes that participation in this review should not be limited to the FCC and the Joint Board. The IUB urges the Commission to initiate an open docket that will allow all interested parties to participate. Broad participation will assure that the requirements of the 96 Telecommunications Act regarding urban and rural rate comparability are met. Any review should include an impact study on the rates to the customers of the small rural telephone companies

The FCC's recommendation to support only residential and single line businesses may not be appropriate for rural areas. The current high cost fund provides support for funding

based upon a company's working lines. If in the future, multi-line businesses do not receive support it could be detrimental to the economic development of the communities in extremely high cost areas. The FCC in its review should also consider the impact on the multi-line businesses in the areas served by the rural companies.

Before a proxy based support system is applied to the small rural companies, the FCC should be certain that the model chosen can accurately predict the cost of these companies. If the models can not be developed to the necessary level of accuracy, the FCC should use a bifurcated approach for rural companies and base the support for those companies on embedded cost.

REVENUE BASE FOR FEDERAL UNIVERSAL SUPPORT

The Joint Board asked for additional comment on the issue of whether both intrastate and interstate revenues of carriers that provide interstate telecommunications services should be assessed to fund the federal high cost and low income support mechanisms. The IUB believes that the Act is clear that the FCC has no authority to assess the intrastate revenues of interstate carriers.

Section 254(d) of the Telecommunications Act of 1996 states that "every telecommunications carrier that provides interstate telecommunications services" must contribute to the universal service fund established by the FCC to preserve and advance universal service. Section 254(f) provides that "[e]very telecommunications carrier that

provides intrastate telecommunications services shall contribute, on an equitable and nondiscriminatory basis, in a manner determined by the State to the preservation and advancement of universal service in that State." While the Act clearly states who may be tapped, it does not say what revenues are accessible for the fund. In the absence of clear authority to assess intrastate revenues, the assessments for support of these two distinct funds is to follow traditional jurisdictional lines set by Congress in section 152(b); the FCC may assess interstate revenues and the states may assess intrastate revenues. Nothing in the statute allows the FCC to usurp the state's authority and make assessments on intrastate revenues. Without clear statutory authorization to do so, the FCC may not, regardless of policy reasons favoring such a funding mechanism, reach intrastate revenues.

The IUB supports a fair and equitable responsibility for supporting universal service between the federal and state jurisdictions. Universal service has previously been accomplished through explicit and implicit state and federal programs and pricing policies. The IUB believes this partnership in responsibility is expressed in the Act and should be continued.

We realize that at this time the joint board has deferred the decision on the proxy models and the appropriate revenue or cost benchmark. Without this knowledge, it is impossible to know the size of the fund or individual effect on each state. The IUB recommends that the FCC should establish a federal fund based upon interstate revenues that assumes responsibility for a minimum of 50% of the funding requirement.

Attachment A² is an example, of a universal service funding requirement of \$7.4 billion with the assumption that the Federal fund would be responsible for 50% of the funding requirement. This would require an assessment on interstate revenues of 5.41%. On average the state assessment would be 6.99%. ³

Another way to accomplish this would be for the FCC to set the revenue benchmark at a higher than "appropriate" level and states would have the responsibility, through an intrastate fund assessed on intrastate revenues, to raise the remaining funds necessary to support universal service.

Attachment B is an example of a federal universal service fund based upon a \$40.00 benchmark that would result in a \$4.2 billion fund. If, as in the previous example, the appropriate benchmark was determined to be \$30.00 the remaining state responsibility would be \$3.2 billion. The assessment on interstate revenues would be 6.20% and the average assessment on intrastate revenues would be 4.90%.

It will be the responsibility of the states to establish programs that will provide the additional universal service funds necessary to meet the individual needs of the states. A national program will not be able to accurately assess the needs of the individual states.

² Attachments A & B are based upon results of the BCM2. The BCM2 model and its results are not endorsed but used as an example of the effect of the distribution of funds to the states.

³ December 8, NARUC Staff Subcommittee on Communications report, Display charts: rankings by State for Various USF Funding Amounts from TIAP 1995 Calculated Telecommunications Revenues.

Establishing a federal fund at a level less than the level necessary for full funding allows states to establish a complimentary fund sized to the needs of the state. The IUB is in a better position to determine the universal service needs in Iowa. The FCC should assume a reasonable share of the funding and allow states to establish intrastate funds to meet the individual needs of the states. Users of interstate and intrastate services benefit if customers are kept on the network through a universal service fund. Both benefit, therefore, both should assume financial responsibility for funding a universal service program.

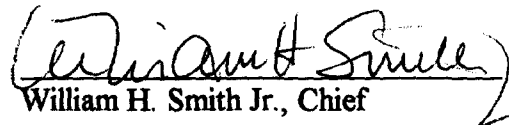
ACCESS TO ADVANCED SERVICES

The Iowa Utilities Board wishes to address the issue of affordable advanced services including internet access. Advanced telecommunications and information service should include internet services. The Telecommunications Act of 1996, § 254(b), set up seven principles for the preservation and advancement of universal service. Two of these principles are access to advanced services and access in rural and high cost areas.

The Iowa Communications Network has begun to connect public school districts to the internet via its facilities. Rural school districts that have received access are pleased, but have indicated that students are unable to access the internet from home unless a long distance number is used to gain access. The interaction with the network is slow and toll charges are involved. At the same time urban consumers are able to gain access to internet services through a local call.

It has been brought to the Board's attention that many rural consumers believe there is little incentive for telecommunications providers to establish access to internet facilities within their small communities. The IUB believes that as rules are drafted for access to advanced services for schools, libraries and rural health care providers, incentives should be established to encourage access to facilities for entire communities in remote rural areas.

Respectfully submitted,


William H. Smith Jr., Chief
Bureau of Rate and Safety Evaluation
Iowa Utilities Board
Lucas State Office Building
Des Moines, Iowa 50319
(515) 281-5469

Allan Kniep
Deputy General Counsel
Iowa Utilities Board
Lucas State Office Building
Des Moines, Iowa 50319
(515) 281-4769